

FY2007 SINGLE AUDIT OVERVIEW**Purpose**

The following overview is intended to provide the reader with a general understanding of the different auditor's reports, management letters, financial statements and other information included in the FY2007 state of South Dakota Single Audit Report.

Single Audit

A single audit is an audit which includes both the entity's financial statements and its federal awards. The State's single audit includes an examination of the financial records, internal controls and compliance with federal laws and regulations for both the federal programs and the State as a whole.

The audit of the State's financial statements is designed to determine whether the statements are fairly presented in all material respects; and whether the presentation is in accordance with generally accepted accounting principles (GAAP).

Comprehensive Annual Financial Report

The Comprehensive Annual Financial Report (CAFR) is a thorough, detailed presentation of the State's financial position and activities for the fiscal year. The CAFR is presented in three main sections.

- The Introductory Section (pages 1-10) includes a financial overview, discussion of the State's economy and major initiatives, and the organizational structure for State government.
- The Financial Section (pages 11-150) includes the independent auditor's report, management's discussion and analysis that provides an introduction, overview, and analysis of the basic financial statements, the basic financial statements, notes to the basic financial statements, and, combining and individual fund financial statements.
- The Statistical Section (pages 151-170) displays selected unaudited economic, financial trend and demographic information for the state.

Independent Auditors Report

The Independent Auditors Report issued by the Department of Legislative Audit (pages 11-12) provides unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information. An unqualified opinion means, in general, that the audit concluded that the financial statements were presented fairly and accurately.

Government-Wide Financial Statements

The first two financial statements in the CAFR are the government-wide financial statements—the Statement of Net Assets (page 31) and the Statement of Activities (pages 32-33). The government-wide statements provide comprehensive information about the entire government, including all of the governmental funds, proprietary funds, long-term debt, and capital assets. The government-wide statements do not include the fiduciary funds, which account for resources the government manages on behalf of others. This is because fiduciary fund resources are not available to support the State's programs.

The Statement of Net Assets contains information about what the State owns (assets), what the State owes (liabilities), and what is left after assets are used to satisfy liabilities (net assets).

The Statement of Activities contains information about the costs of providing public services (expenses) and resources obtained to finance services (revenues) during the current fiscal year. The statement demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or

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directly benefit from goods, services or privileges provided by a given function; and, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included as program revenues are reported as general revenues.

These statements provide comprehensive information about the entire State, excluding fiduciary funds, separated between:

- Governmental Activities encompass most of the State's basic services including; general government, education, health, human and social services, transportation, economic resources, and agriculture and natural resources. Revenues from fees, taxes and federal grants finance most of these activities.
- Business-Type Activities are financed in whole or in part by fees charged to external parties for goods or services.
- Discretely Presented Component Units are entities legally separate from but financially accountable to the State, or their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The discretely presented component units include the Conservation Reserve Enhancement Program (CREP), South Dakota Finance Authority, South Dakota Housing Authority, Value Added Finance Authority, Science and Technology Authority, and, Higher Education.

Fund Financial Statements

Separate financial statements are provided for governmental funds (pages 34-41), proprietary funds (pages 42-45), fiduciary funds (pages 46-47), and discretely presented component units (pages 48-49). Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column. A further breakdown of nonmajor fund financial amounts can be found in the combining statements (pages 116-150).

The Government Accounting Standards Board (GASB) established the criteria to be used in determining the major funds to be reported. The criteria establishes a fund as major if, the total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and, total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined. The General Fund is always displayed as a major fund.

The major governmental funds are:

- General Fund
- Transportation Fund
- Social Services Federal Fund
- Dakota Cement Trust Fund
- Education Enhancement Trust Fund

The major enterprise funds are:

- Lottery Fund
- Clean Water State Revolving Fund
- Drinking Water State Revolving Fund

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Measurement Focus and Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities along with the proprietary fund, fiduciary fund and component unit statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus is similar to private enterprise reporting and attempts to answer the question of whether the fund's total economic resources have increased or decreased. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The current financial resources measurement focus attempts to answer the question of whether there are enough current resources available for spending in the near future. Revenues are recognized as soon as they are both measurable and available. Expenditures are recognized in the period in which the fund liability is incurred except for the long-term portion of certain liabilities such as bonds payable, compensated absences and capital lease obligations.

Schedule of Expenditures of Federal Awards

Pages 171-228 provide the Schedule of Expenditures of Federal Awards and the Auditor's Report on the schedule. The schedule lists the state's cash basis expenditures incurred on federal grants during the fiscal year.

Internal Control and Compliance Reports

Pages 229-234 provides two auditor's reports regarding internal control and compliance.

- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

This is the auditor's report on internal controls tested as part of the financial statement audit. The report does not offer an auditor's opinion on the overall design and operation of the government's internal control but provides the material reportable conditions and noncompliance that were identified during testing.

- Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

This is the auditor's report on the results of tests of internal controls over compliance for major federal award programs. The auditor gave an unqualified opinion on the State's compliance with the requirements of major federal programs. The report also provides a listing of audit findings resulting in questioned costs and reportable conditions.

Findings, Questioned Costs and Corrective Action Plans

Pages 235-310 provides:

1. A summary of the results of the audit of the financial statements and federal awards.
2. Listings of the major federal grant programs tested, the audit reports issued separately and the other significant areas tested.
3. A listing of the prior and current year audit findings and questioned costs by agency of state government.

FY2007 SINGLE AUDIT OVERVIEW**Selected Financial Statements**

The following pages provide selected financial statements from the Single Audit Report. The statements contain information about what comprises certain columns and balances in those statements and where to find additional note disclosures for certain account balances.